

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
Phase II Support for Price Cap Carriers)	
Serving Non-Contiguous Areas)	
)	
CAF II Cost Model Version 3.2)	DA 13-1846

REPLY COMMENTS OF HAWAIIAN TELCOM, INC.

Hawaiian Telcom, Inc. (“HTI”) hereby submits its reply comments in the above-captioned docket. All comments submitted in this proceeding to date point to the inadequate universal service fund (“USF”) support for price cap carriers serving non-contiguous areas of the country. HTI urges the Commission to adopt recommendations for amending the non-contiguous area proposals for the Connect America Cost Model (“CACM v3.2”) to better reflect the Commission’s admonition that the cost model should account for the unique characteristics of these non-contiguous areas, including the State of Hawaii.¹ HTI is encouraged that Commission staff has taken some positive steps to implement this admonition,² but strongly urges them to make changes that would more fully implement the Commission’s goals of fostering broadband deployment in non-contiguous areas.

¹ *Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, ¶ 193 (2011), *pets. for review pending sub nom. In re: FCC 11-161*, No. 11-9900 (10th Cir., filed Dec. 18, 2011).

² Public Notice, *Wireline Competition Bureau Announces Availability of Version 3.2 of the Connect America Fund Phase II Cost Model, and Illustrative Results; Seeks Comment on Several Modifications for Non-Contiguous Areas*, WC Docket No. 10-90, DA 13-1846 (Wir. Comp. Bur., rel. Aug. 29, 2013).

Non-contiguous area price cap carriers have provided record support for price cap carriers' additional costs to deploy broadband than estimated by the CACM v3.2 . Alaska Communications Systems Corp. ("ACS") urges the Commission to better develop the parameters of the staff's undersea cable cost module in accordance with the physical needs and characteristics of Alaska.³ The Virgin Islands Telephone Corp. ("Vitelco") asks the Commission to include inter-island costs that are necessary to support delivery of all services in the Virgin Islands.⁴ The Puerto Rico Telephone Corp. ("PRTC") argues that CACM v3.2 underestimates the costs for obtaining transport pursuant to undersea cables to and from the island of Puerto Rico.⁵ Commenters ask that the Commission incorporate actual plant mix figures experienced in non-contiguous areas.⁶ When coupled with HTI comments, these carrier comments represent solid record support for further modifying CACM v3.2 to better estimate the cost characteristics of non-contiguous areas of the country, as the Commission directed.

Failing to recognize, and make accommodations for, the unique characteristics of non-contiguous areas will have a pronounced and identifiable negative impact on broadband deployment. Such a consequence is not only inconsistent with the Commission's goal of achieving near-universal broadband,⁷ but also is inconsistent with Section 254 of the

³ Comments of Alaska Communications Systems, WC Docket No. 10-90, DA 13-1846, 5-17 (filed Sept. 12, 2013) ("ACS Comments").

⁴ Comments of Virgin Islands Telephone Corporation d/b/a Innovative Telephone, WC Docket No. 10-90, 5 (filed Sept. 12, 2013) ("Vitelco Comments").

⁵ Comments of Puerto Rico Telephone Company, Inc., WC Docket No. 10-90, 17-23 (filed Sept. 12, 2013) ("PRTC Comments").

⁶ ACS Comments at 17; PRTC Comments at 17.

⁷ Federal Communications Commission, Connecting America: The National Broadband Plan, GN Docket No. 09-51 (rel. Mar. 16, 2010), *available at* <http://www.broadband.gov/plan/> ("National Broadband Plan").

Communications Act, which requires that USF support mechanisms be “specific, predictable and sufficient . . . to preserve and advance universal service.”⁸

ACS and PRTC argue that CACM v3.2 unrealistically assumes that there will be an 80 percent take-rate among customers that are capable of being served by broadband facilities.⁹ This unrealistic take-rate has the effect of reducing the amount of per-location costs modeled by v3.2, and thus leads to insufficient USF support for broadband in non-contiguous areas. This 80 percent take-rate assumption is far higher than what could reasonably be expected on average in non-contiguous areas, particularly in rural areas where income levels and other unique socio-economic factors reduce expected broadband adoption. It has been recently estimated that some 70 percent of customers actually have broadband facilities at home, which estimate includes urban areas on the mainland.¹⁰ Rural areas only have an average 62 percent take rate for such facilities.¹¹ The adoption rate is estimated to be even lower for the unserved and underserved areas in the non-contiguous geographic areas targeted by the CACM v3.2, where broadband deployment has not yet been deployed. In reality, the current Hawaii customer take-rate for broadband facilities where it is available is at most 45 to 50 percent on average.¹²

It is a fact that broadband deployment in non-contiguous areas, particularly the rural parts of these locales, is behind the rest of the country. The consumers in rural areas tend to be poorer,

⁸ 47 U.S.C. § 254(b)(5).

⁹ ACS Comments at 13; PRTC Comments at 12 (estimates 25 to 35 percent take-rate in Puerto Rico where broadband is currently available).

¹⁰ Pew Research Center, Home Broadband 2013, 2 (Aug. 26, 2013), *available at* <http://pewinternet.org/Reports/2013/Broadband.aspx> (“Pew Research Study”).

¹¹ *Id.* at 5. It is unclear whether any of the Pew Research sampling included non-contiguous area customers.

¹² Although there are doubts concerning the usefulness to the cost model and the granularity of the data, even the FCC reports that the subscription rates is only 58.4 percent for customers who subscribe to 3 Mbps broadband service in rural census tracts in Hawaii. *Bringing Broadband to Rural America: Update to Report on A Rural Broadband Strategy* GN Docket No. 11-16, 26 FCC Rcd. 8680, App. D (2011) (“*Rural Broadband Report*”).

with less education, and more elderly than other areas of the country.¹³ These are the very same demographic groups which tend to have lower adoption rates.¹⁴ The Commission itself has recognized these differences.¹⁵ HTI believes that the model take-rate assumption should be reduced to 50 percent, which is itself an optimistic take-rate figure for what an efficient competitor can reasonably be expected to achieve in non-contiguous areas.

The undersea cable module of CACM v3.2 must be further modified to more accurately model the added costs of providing broadband in non-contiguous areas of the country. HTI demonstrated some of these problems in its comments filed in this proceeding.¹⁶ ACS also rightfully identifies other problems with the module, such as the failure to recognize the real world costs of constructing and maintaining undersea cables, the underestimation of the number of termination points, and the underestimation of the costs that should be assigned to ACS facilities.¹⁷ PRTC correctly points out that the model makes unfounded assumptions regarding IRU costs.¹⁸

HTI applauds the Commission's efforts to move forward to grant further CAF support to price cap carriers serving non-contiguous areas. HTI urges the Commission to modify CACM v3.2 to better reflect the costs of non-contiguous areas, as specified more fully in these

¹³ *Id.*, ¶ 12.

¹⁴ Pew Research Study at 3.

¹⁵ *Rural Broadband Report*, ¶¶ 10-11 & App. D; National Broadband Plan at 168.

¹⁶ Comments of Hawaiian Telcom, Inc., WC Docket 10-90, DA 13-1846 (filed Sept. 12, 2013) ("HTI Comments").

¹⁷ ACS Comments at 7-17.

¹⁸ PRTC Comments at 20-23.

comments and the HTI Cost Ex Parte.¹⁹ This will advance the Commission's and the statute's objectives to promote universal service, including the wider availability of broadband services.

Respectfully submitted,

By: /s/ Gregory J. Vogt
Gregory J. Vogt
Law Offices of Gregory J. Vogt, PLLC
101 West Street, Suite 4
Black Mountain, NC 28611
(828) 669-2099
gvogt@vogtlawfirm.com

Steven Golden
Vice President External Affairs
Hawaiian Telcom, Inc.
1177 Bishop Street
Honolulu, Hawaii 96813

September 19, 2013

¹⁹ Letter from Steven P. Golden, Hawaiian Telcom, Inc., to Marlene Dortch, FCC, WC Docket No. 10-90, *et al.* (filed September 11, 2013) ("HTI Cost Ex Parte").